

*Point of No Return:
How Does the Duration of a Jobless
Spell Affect Retirement Timing?*

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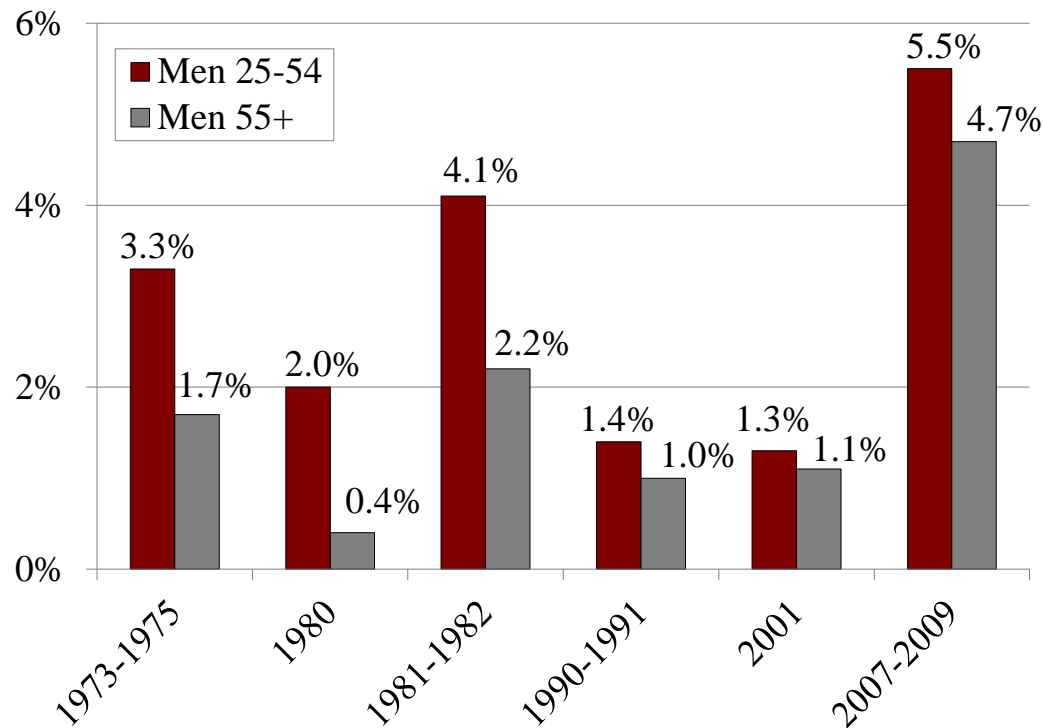
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Recessions are hurting young and old alike.

- Younger workers bear the brunt
 - ...and did again during the Great Recession.
- Older workers are usually unscathed, but not this time.
 - Record 7.3 percent unemployment
 - Record 14 percent lost job
 - Longest average jobless duration

Older workers no longer immune to job loss.

Change in Unemployment Rate in Recent Recessions, Men 25-54 and 55+



Source: U.S. Bureau of Labor Statistics. *Labor Force Statistics from the Current Population Survey*, 2013.

What does an older jobless individual do?

- Keep searching?
- Retire earlier than planned?
- Drop out, but keep options open?
- Depends on resources available
 - Social Security
 - Assets and pension wealth
 - UI benefits
 - Labor market prospects

What do we know already?

- High unemployment rate => More retirements
 - Coile and Levine, 2007 and 2011; von Wachter, 2007; Munnell, et al. 2008; and Friedberg, Owyang, and Webb, 2008
- Job loss => Labor force exit
 - Chan and Stevens, 1999, 2001, and 2004; and Tatsiramos 2010
- This paper's contribution:
 - First estimates of resources on retirement timing in U.S.
 - How retirement/LF exit timing has changed over time.

Data and sample

- *Survey of Income and Program Participation (SIPP)*
 - 1990-2008 panels
 - Use person-waves (every 4 months)
- Sample: Workers 55-70 who left job
 - Exclude immediate retirement/labor force exit
 - Not too close to end of sample
 - 3,400-6,500 individuals

How do jobless spells end?

1) Re-employment

- No weeks worked in month $t-1$, some or all in t , all in $t+1$

2) Censoring

- SIPP panel ends, attrition

3) Retirement or labor force exit

Defining “retirement”

“What is the main reason [you] did not work?” (1996-2012)

- 1) Strict definition:
 - Say “retired,” don’t un-retire

- 2) Quasi-strict definition
 - Say “retired,” un-retirement allowed after four months

- 3) Loose definition
 - Say “retired,” health, or taking care of others
Un-retirement allowed after four months

Defining labor force exit

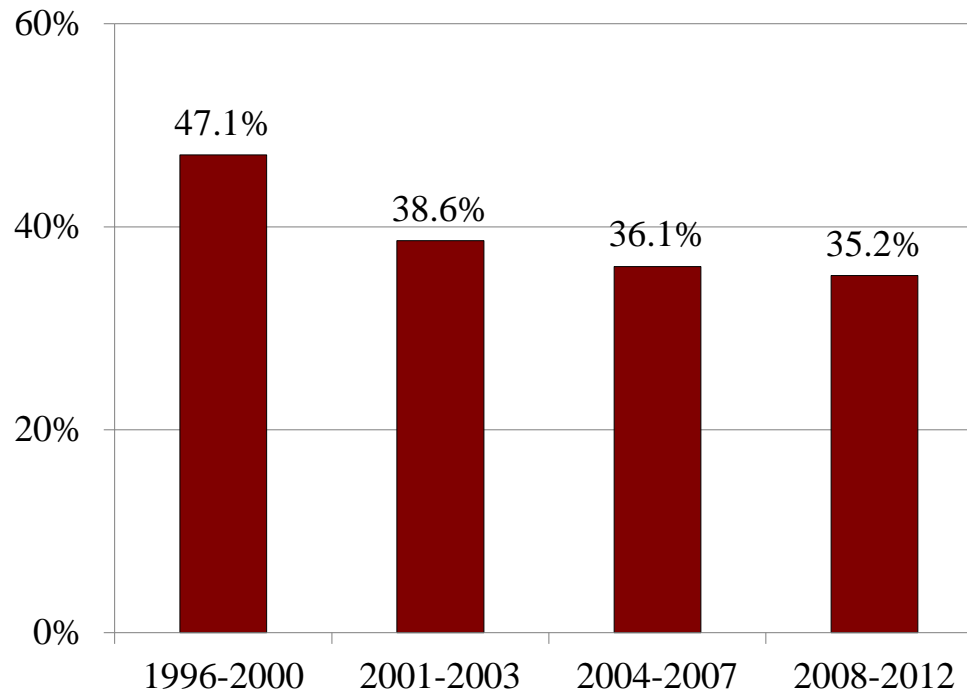
- Available for all years (1990-2012)
- No weeks worked
- No weeks looking for work
- Out of labor force for last six months or more
 - Sample cut off six months before censoring
- Note: spotty employment is neither re-employment nor exit

Independent variables

- State unemployment rate
- Age and Social Security retirement benefit availability
- Remaining UI benefit eligibility
- Net worth quintile
- DB and DC pension ownership
- Spouse's age and work status
- Demographics, year dummies, health status, health insurance
- Number of months since job loss

Recently, fewer spells end in retirement.

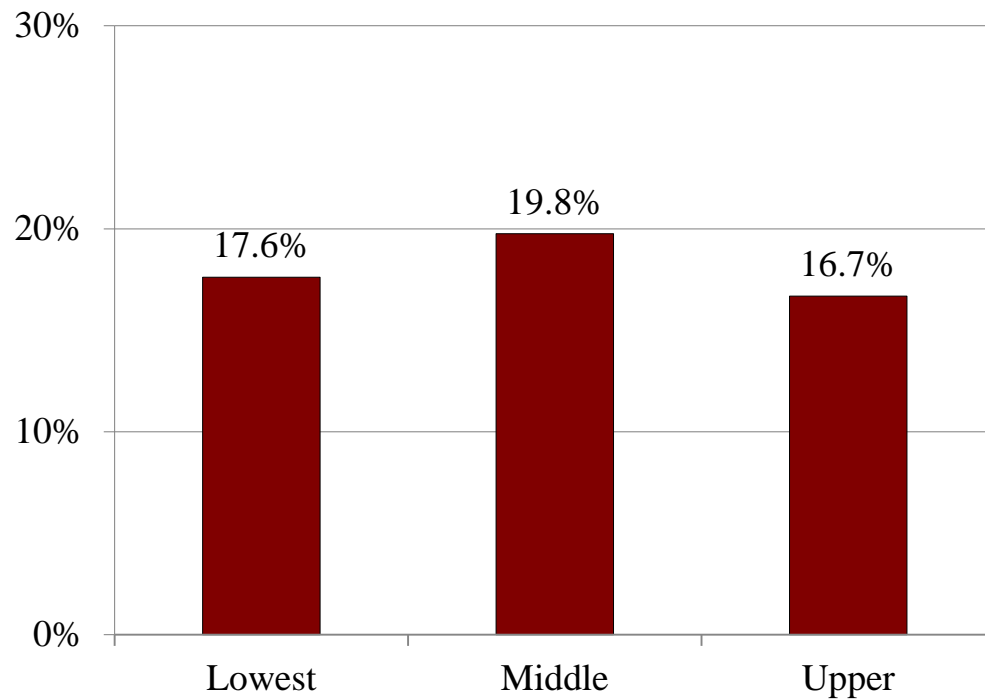
Probability of Jobless Spell Ending in Retirement, by Period



Source: Author's calculations from U.S. Bureau of the Census. *Survey of Income and Program Participation*, 1996-2008 panels.

More retirement in moderate U rate states.

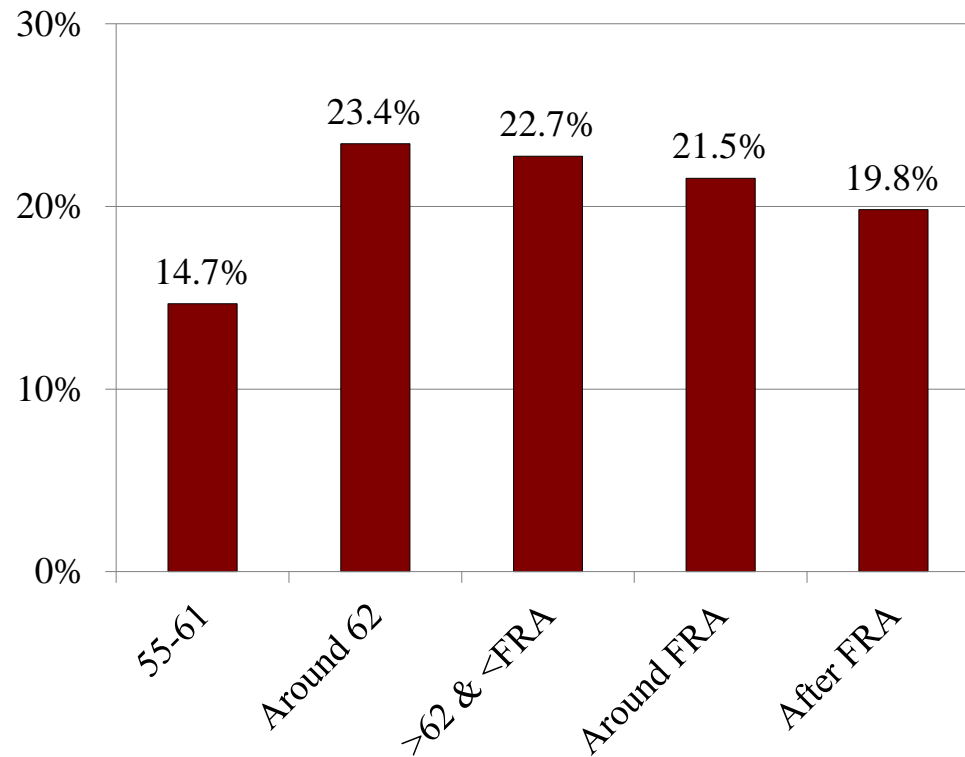
Probability of Jobless Spell Ending in Retirement, by Unemployment Rate Tercile



Source: Author's calculations from U.S. Bureau of the Census. *Survey of Income and Program Participation*, 1996-2008 panels.

Retirement spikes at age 62.

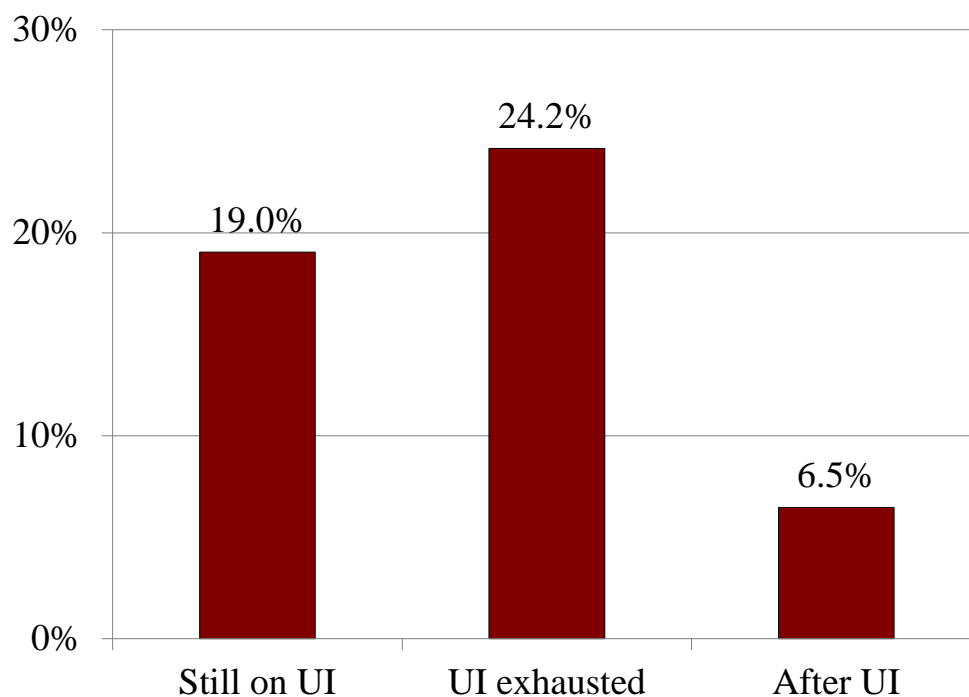
Probability of Jobless Spell Ending in Retirement, by Age



Source: Author's calculations from U.S. Bureau of the Census. *Survey of Income and Program Participation*, 1996-2008 panels.

Retirement more likely in last months of UI.

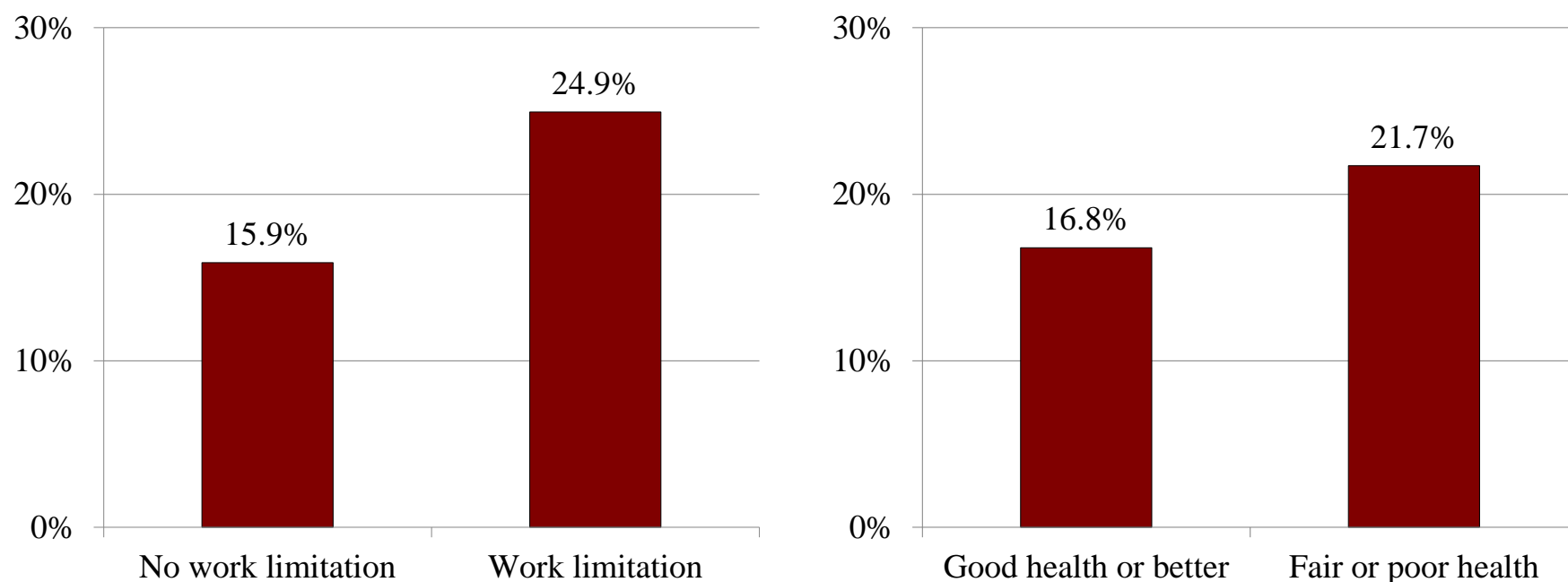
Probability of Jobless Spell Ending in Retirement, by UI Eligibility



Source: Author's calculations from U.S. Bureau of the Census. *Survey of Income and Program Participation*, 1996-2008 panels.

Unhealthy, disabled more likely to retire.

Probability of Jobless Spell Ending in Retirement, by Health Status



Source: Author's calculations from U.S. Bureau of the Census. *Survey of Income and Program Participation*, 1996-2008 panels.

Retirement/exit more likely with age.

Multinomial Logit Regression Results, by Retirement/Labor Force Exit Definition

Dependent variable	Strict retirement	Quasi-strict retirement	Loose retirement	Labor force exit (1990-2012)
Mean hazard rate	0.082	0.110	0.190	0.080
State unemployment rate	-0.001	-0.005 ***	-0.007 ***	-0.005 **
Around 62nd birthday	0.053 ***	0.065 ***	0.063 ***	0.085 ***
62 to FRA	0.034 ***	0.049 ***	0.045 **	0.085 ***
Around FRA birthday	0.061 ***	0.098 ***	0.112 ***	0.155 ***
After FRA	0.029	0.087 ***	0.080 **	0.086 **
Age (quadratic)	0.043 ***	0.051 ***	0.033 **	0.025
Still on UI	0.016	0.014	-0.029	-0.019
UI exhausted	0.013	0.006	-0.006	0.016
Sample size	21,314	20,240	12,127	9,443

Note: *** p<0.01, ** p<0.05, * p<0.1.

Source: Author's estimates from U.S. Bureau of the Census. *Survey of Income and Program Participation*, 1996-2008 panels.

Retirement/exit earlier with wealth, DB plan.

Multinomial Logit Regression Results, by Retirement/Labor Force Exit Definition (cont'd)

Dependent variable	Strict retirement	Quasi-strict retirement	Loose retirement	Labor force exit (1990-2012)
Mean hazard rate	0.082	0.110	0.190	0.080
Net worth quintile				
Lowest	-0.033 ***	-0.037 ***	-0.041 ***	-0.032 **
2nd	-0.023 ***	-0.020 **	-0.040 ***	-0.040 ***
3rd	-0.014 *	-0.019 **	-0.034 ***	-0.016
4th	-0.007	-0.010	-0.027 **	-0.022 **
DB pension coverage	0.037 ***	0.061 ***	0.068 ***	0.033 ***
DC pension coverage	-0.009 **	0.000	-0.007	-0.007
Sample size	21,314	20,240	12,127	9,443

Note: *** p<0.01, ** p<0.05, * p<0.1.

Source: Author's estimates from U.S. Bureau of the Census. *Survey of Income and Program Participation*, 1996-2008 panels.

Disability correlation depends on definition.

Multinomial Logit Regression Results, by Retirement/Labor Force Exit Definition (cont'd)

Dependent variable	Strict retirement	Quasi-strict retirement	Loose retirement	Labor force exit (1990-2012)
Mean hazard rate	0.082	0.110	0.190	0.080
Married	0.017 **	0.022 **	0.057 ***	0.031 **
Spouse 62 or older	0.004	0.002	0.001	-0.001
Spouse FRA or older	-0.009	0.000	-0.004	-0.017 *
Spouse working	-0.027 ***	-0.025 ***	-0.007	-0.023 **
Female	-0.002	-0.011 **	0.037 ***	0.036 **
Work limitation	-0.050 ***	-0.086 ***	0.083 ***	0.071 ***
Fair or poor health	0.012 *	0.005	0.031 ***	0.036 **
Sample size	21,314	20,240	12,127	9,443

Note: *** p<0.01, ** p<0.05, * p<0.1.

Source: Author's estimates from U.S. Bureau of the Census. *Survey of Income and Program Participation*, 1996-2008 panels.

Does retirement increase with high U rate?

- Interact unemployment rate with age, months since separation
- Predict probability of retiring each month by:
 - Age group: 55-61, around 62, around FRA
 - State unemployment rate
 - 5 percent: 2004-2007 average
 - 8.3 percent: 2008-2012 average
- Result: Modest increases, but largest effect at FRA

Small increase in retirement at 55-61.

Predicted Probability of Retiring at Age 55-61, by Unemployment Rate



Source: Author's estimates from *Survey of Income and Program Participation*, 1996-2008 panels.

Slightly larger increase in retirement at 62.

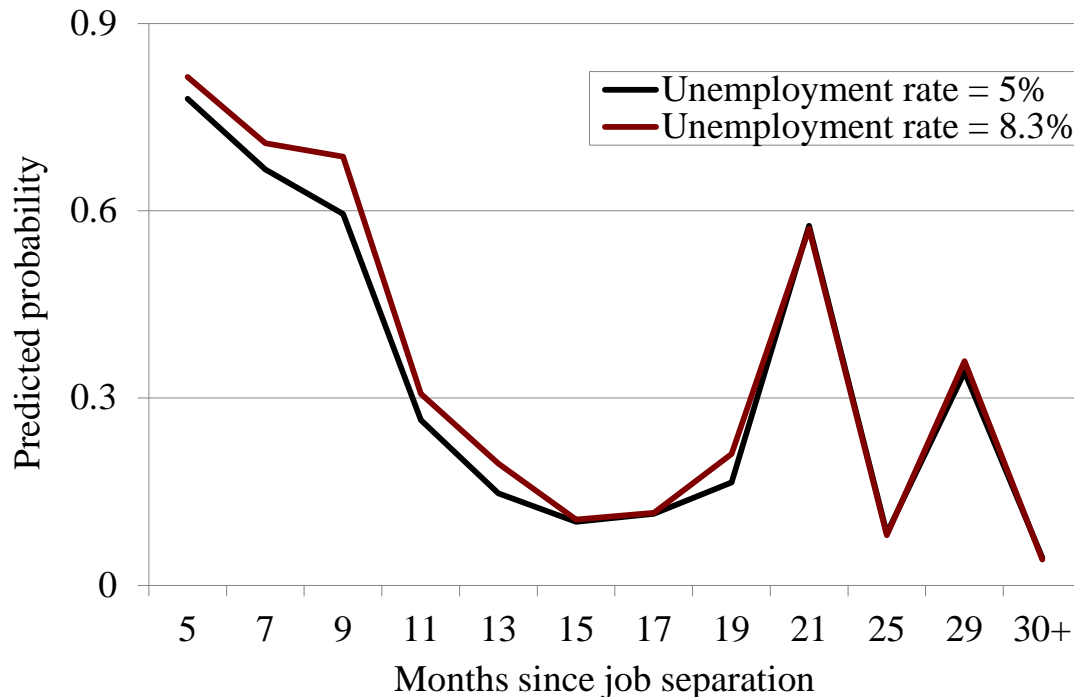
Predicted Probability of Retiring around Age 62, by Unemployment Rate



Source: Author's estimates from *Survey of Income and Program Participation*, 1996-2008 panels.

Largest increase in retirement around FRA.

Predicted Probability of Retiring around Full Retirement Age, by Unemployment Rate



Source: Author's estimates from *Survey of Income and Program Participation*, 1996-2008 panels.

Other results

- By age
 - Net worth, DB pension only important for age 55-61
 - Correlation with health, spouse's work status strongest for age 55-61
- By period
 - Age 62+ more likely to retire in expansions than recessions

Conclusions

- After separation, few search for long
- Greater resources encourage retirement/exit, not job search
 - Social Security, high net worth, DB pensions
- High unemployment associated with only slightly more rapid retirement
 - Concentrated among age 62+
- Unhealthy, disabled retire sooner

Policy implications

- Older workers have little tolerance for job search
 - Not very dependent on labor market prospects
- Consequences of impatience are getting worse
 - Fewer DB plans, retiree health insurance
 - Lower Social Security replacement rates
 - Insufficient 401(k) balances
- But recent cohorts healthier, expect to work longer anyway